

WEST DES MOINES WATER WORKS

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
AUDITOR'S REPORT ON COMPLIANCE
SCHEDULE OF FINDINGS

DECEMBER 31, 2008 and 2007

WEST DES MOINES WATER WORKS

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WEST DES MOINES WATER WORKS

OFFICIALS

December 31, 2008

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|--------------------------------|-------------------------------------|---------------------|
| Ronald H. Degen | Trustee | Dec 31, 2008 |
| William B. Spencer | Trustee | Dec 31, 2009 |
| Philip J. Dorweiler | Trustee | Dec 31, 2010 |
| Karen Novak Swalwell | Trustee | Dec 31, 2011 |
| Timothy J. McCulloh | Trustee | Dec 31, 2012 |
| Jerald W. Stevens | General Manager/Secretary | Indefinite |
| William H. Garrett | Assistant General Manager | Indefinite |
| John R. Luther | Superintendent | Indefinite |
| Paula R. Meyer | Accountant/Treasurer | Indefinite |



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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
West Des Moines Water Works

We have audited the accompanying financial statements, as listed in the table of contents of this report, of the West Des Moines Water Works, West Des Moines, Iowa, as of and for the years ended December 31, 2008 and 2007. These financial statements are the responsibility of West Des Moines Water Works' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of the West Des Moines Water Works, West Des Moines, Iowa, as of December 31, 2008 and 2007, and the changes in its financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2009 on our consideration of the West Des Moines Water Works' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 7 and page 29 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the aforementioned financial statements that collectively comprise West Des Moines Water Works' basic financial statements. Other supplementary information included on pages 31 through 35 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the aforementioned financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the aforementioned financial statements taken as a whole.

The accompanying statistical section on page 36 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Martens & Company, CPA, LLP

West Des Moines, Iowa
March 20, 2009

WEST DES MOINES WATER WORKS

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2008

West Des Moines Water Works (Water Works) provides this management's discussion and analysis (MD&A) of its financial statements. This narrative overview and analysis of the financial activities is for the years ended December 31, 2008 and 2007. Please consider this information in conjunction with the financial statements and the accompanying notes to the financial statements that follow this section.

OVERVIEW OF BUSINESS

The service area of the Water Works has expanded significantly since its governing Board of Trustees was established by election in 1950. The service area is the corporate limits of West Des Moines. The Water Works also provides billing and collection services on a contractual basis to the City of West Des Moines for sanitary sewer usage, storm water management, and solid waste collection, and meter reading service to the City of Clive and the City of Waukee.

As the Water Works' service area has expanded, so too has the need for water storage facilities, booster stations and additional treatment capacity to meet peak demand requirements. The most economical approach for the Water Works has involved requiring the land developers to install the water mains according to Water Works Specifications after which the Water Works accepts ownership of the water facilities.

The water sources for the Water Works are three wells drilled into the Jordan Aquifer and nineteen wells that draw water from the Raccoon River Alluvial Aquifer. In addition, some West Des Moines water is purchased from the Des Moines Water Works.

Governance of the Water Works is vested in a five-member Board appointed by the Mayor of West Des Moines with approval of the City Council. Trustees serve for six-year staggered terms. The Board has complete control of the Water Works' management, and employs 37 full-time and two part-time seasonal employees.

FINANCIAL HIGHLIGHTS

West Des Moines Water Works' net assets increased as a result of operations. At December 31, 2008, total assets were \$79,735,625 and total liabilities were \$26,897,865 resulting in net assets of \$52,837,760.

Operating revenues increased 8.4% to \$9,835,276 while operating expenses decreased 2.2% to \$7,812,764.

During the year, the Water Works had an operating income of \$2,022,512 and an increase in net assets of \$2,296,183.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

MD&A serves as an introduction to the financial statements, and the MD&A represents management's examination and analysis of West Des Moines Water Works' financial condition and performance. The financial statements report information about the utility using full accrual accounting methods as utilized by similar entities in the private sector.

The balance sheets provide information about the Water Works' assets, liabilities, and net assets, thereby measuring the utility's liquidity and solvency. Liquidity is a measure of the Water Works' ability to meet current obligations (those due within one year). Solvency is a similar concept, but measures the ongoing ability to meet obligations over a longer term.

The statement of revenues, expenses, and changes in net assets presents the results of the Water Works' revenues and expenses over the course of the year and provides information about the Water Works' recovery of costs. Water rates and other charges are established by the Board of Trustees and are based on Water Works' cost of service.

The statement of cash flows presents cash receipts, cash disbursements, and net changes in cash resulting from operations, capital and related financing activities, and investing activities. This statement details where cash resources come from and how they are used.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of data provided in the statements. The notes supplement the basic financial statements by presenting information about the Water Works' accounting policies, significant account balances and activities, material risks, obligations, and commitments.

FINANCIAL INFORMATION OF THE WEST DES MOINES WATER WORKS

The following financial information serves as the key financial data and indicators for management, monitoring, and planning.

Summary of Balance Sheets at Year End

| | <u>2008</u> | <u>2007</u> |
|---|----------------------|----------------------|
| Current assets | \$ 3,864,309 | \$ 4,035,250 |
| Restricted assets | 5,993,904 | 6,438,127 |
| Capital assets, net | 69,688,197 | 67,800,256 |
| Other assets | 189,215 | 210,797 |
| Total assets | <u>\$ 79,735,625</u> | <u>\$ 78,484,430</u> |
| Current liabilities | 5,763,460 | 5,276,620 |
| Long term liabilities | 19,124,585 | 20,636,838 |
| Other liabilities | 2,009,820 | 2,029,395 |
| Total liabilities | <u>26,897,865</u> | <u>27,942,853</u> |
| Invested in capital assets, net of related debt | 46,280,207 | 43,152,662 |
| Restricted | 3,220,858 | 3,894,045 |
| Unrestricted | 3,336,695 | 3,494,870 |
| Total net assets | <u>52,837,760</u> | <u>50,541,577</u> |
| Total liabilities and net assets | <u>\$ 79,735,625</u> | <u>\$ 78,484,430</u> |

Summary of Changes in Net Assets for the Years Ended December 31,

| | 2008 | 2007 |
|---|-----------------------------|-----------------------------|
| Water sales | \$ 7,543,132 | \$ 7,099,040 |
| Connection fees | 903,026 | 563,331 |
| Other sales and services | <u>1,389,118</u> | <u>1,408,894</u> |
| Total operating revenue | <u>9,835,276</u> | <u>9,071,265</u> |
| Salaries and benefits | 3,060,237 | 2,910,173 |
| Chemicals and power | 647,593 | 679,236 |
| Purchased water | 542,175 | 564,123 |
| Insurance | 124,092 | 119,727 |
| Maintenance and supplies | 597,420 | 725,255 |
| Depreciation | 2,290,499 | 2,231,594 |
| Other | <u>550,748</u> | <u>755,450</u> |
| Total operating expenses | <u>7,812,764</u> | <u>7,985,558</u> |
| Operating income | <u>2,022,512</u> | <u>1,085,707</u> |
| Interest income | 268,724 | 561,744 |
| Rental income | 126,153 | 120,669 |
| Interest expense | (823,514) | (937,978) |
| Other, net | <u>(19,133)</u> | <u>(106,946)</u> |
| Total non-operating revenues (expenses) | <u>(447,770)</u> | <u>(362,511)</u> |
| Income before contributions | 1,574,742 | 723,196 |
| Capital contributions | <u>721,441</u> | <u>5,624,141</u> |
| Change in net assets | <u>2,296,183</u> | <u>6,347,337</u> |
| Net assets, beginning of year | <u>50,541,577</u> | <u>44,194,240</u> |
| Net assets, end of year | <u><u>\$ 52,837,760</u></u> | <u><u>\$ 50,541,577</u></u> |

FINANCIAL ANALYSIS

Current assets (not restricted) decreased 4.2% primarily due to a decrease in cash, which was used to pay for capital projects.

Current liabilities increased 9.2% primarily due to an increase in construction payables and an increase in the receipts payable to the City of West Des Moines for utility billing.

Long-term liabilities decreased 7.3% due to the pay down of Water Works bonds.

Water sales increased 6.3% primarily due to a water rate increase January 1, 2008.

Connection fees increased 60.3% primarily due to two large apartment building complexes and a new hospital which were billed for water supply connection fees.

Other sales and services decreased 1.4% for a variety of reasons which included the following. EPA grant reimbursement decreased by 67.6% due to a decrease in expenses which were reimbursed in 2008, sales of materials decreased 17.9% due to a decrease in the number of new water taps made, and construction inspection fees decreased 58.3% due to a decrease in new water main inspections.

Chemicals and power expenses decreased 4.7% due to a decrease in the amount of water produced in 2008.

Purchased water expense decreased 3.9% primarily due to a wet year which reduced irrigation and therefore reduced the need to purchase additional water in the summer months.

Cost of corporate insurance increased 3.6% due to expected and budgeted insurance coverage increases in the insurance industry.

Maintenance and supplies expense decreased 17.6% as budgeted. Maintenance projects for 2008 included well maintenance in the amount of \$103,323, and the maintenance to the distribution system in the amount of \$119,963.

CAPITAL ASSETS

During 2008, net capital assets increased \$1,887,941 or 2.8%. In addition to replacing unlined cast iron water mains, the Water Works is engaged in a multi-year capital project to build a two million gallon water tower and two large pumping stations.

DEBT ADMINISTRATION

At December 31, 2008, the Water Works had \$20,636,838 in water revenue bonds outstanding, compared to \$22,088,056 at December 31, 2007 as shown below.

| | Outstanding Debt at Year-End | |
|---------------------|-------------------------------------|--------------------|
| | <u>2008</u> | <u>2007</u> |
| Water revenue bonds | \$ 20,636,838 | \$ 22,088,056 |

Debt decreased in the amount of \$1,451,218. Principal and interest payments on all outstanding debt were made as scheduled.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

West Des Moines Water Works does not receive any material federal and state, or city funding, therefore the slowing of the national economy and state funding cuts have not had an impact on operations. The Board of Trustees approved a conservative operating budget increase for 2009. The connection fee revenue estimate in the 2009 budget has been reduced due to an expected decline in new building permits issued. Effective January 1, 2009, water rates increased from \$3.75 to \$4.10 per 1,000 gallons. Water rates are designed only to cover the cost of water service to the customers.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of West Des Moines Water Works' finances. If you have any questions or require additional information, please contact the General Manager at 4200 Mills Civic Parkway, Suite 1D, West Des Moines, IA 50265-2049.

FINANCIAL STATEMENTS

WEST DES MOINES WATER WORKS

BALANCE SHEETS

December 31, 2008 and 2007

| ASSETS | | | LIABILITIES AND NET ASSETS | | |
|---|----------------------|----------------------|---|----------------------|----------------------|
| | 2008 | 2007 | | 2008 | 2007 |
| CURRENT ASSETS | | | CURRENT LIABILITIES | | |
| Cash | \$ 2,482,537 | \$ 3,055,785 | Accounts payable | \$ 262,136 | \$ 292,432 |
| Investments | 272,139 | 81,276 | Accrued payroll | 100,488 | 81,085 |
| Accounts receivable | 831,152 | 587,527 | Accrued vacation | 121,026 | 118,223 |
| Inventory | 124,580 | 137,759 | Accrued sales tax | 22,383 | 27,059 |
| Unexpired insurance | 62,242 | 61,796 | Deferred revenue | 40,468 | 40,751 |
| Unamortized bond discount | 14,545 | 14,545 | Bond premium | 2,448 | 2,448 |
| Unamortized bond issue costs | 7,036 | 7,036 | Accrued interest payable | 33,826 | 36,050 |
| Accrued interest receivable | 70,078 | 89,526 | Current portion of long-term debt | 1,512,253 | 1,451,218 |
| | <u>3,864,309</u> | <u>4,035,250</u> | | <u>2,095,028</u> | <u>2,049,266</u> |
| RESTRICTED ASSETS | | | Payable from restricted assets: | | |
| Cash | 531,546 | 403,713 | Customer deposits | 226,907 | 220,966 |
| Investments | 3,774,080 | 4,349,000 | Accounts payable | 1,024,081 | 788,909 |
| Accounts receivable for City of West Des Moines | 645,822 | 644,246 | Payable to City of West Des Moines | 2,417,444 | 2,217,479 |
| Accounts receivable | 1,620 | 2,918 | | <u>3,668,432</u> | <u>3,227,354</u> |
| Deposit - water revenue bond fund | 1,040,836 | 1,038,250 | | | |
| | <u>5,993,904</u> | <u>6,438,127</u> | Total current liabilities | <u>5,763,460</u> | <u>5,276,620</u> |
| Total current assets | <u>9,858,213</u> | <u>10,473,377</u> | LONG-TERM LIABILITIES | | |
| CAPITAL ASSETS | | | Revenue Bonds - net of current portion | 19,124,585 | 20,636,838 |
| Land | 620,768 | 620,768 | Total long-term liabilities | <u>19,124,585</u> | <u>20,636,838</u> |
| Buildings and structures | 22,259,327 | 19,459,404 | OTHER LIABILITIES | | |
| Machinery and equipment | 8,619,053 | 8,323,161 | Deposit - shared water tower | 128,695 | 105,637 |
| Mains and hydrants - constructed by Water Works | 21,027,525 | 20,306,909 | Deferred revenue | 1,861,541 | 1,901,726 |
| Mains and hydrants - contributed by developers | 21,660,047 | 20,938,607 | Bond premium | 19,584 | 22,032 |
| Wells | 4,495,373 | 4,495,373 | Total other liabilities | <u>2,009,820</u> | <u>2,029,395</u> |
| Meters | 2,738,607 | 2,596,760 | Total liabilities | <u>26,897,865</u> | <u>27,942,853</u> |
| Treatment plant capacity - Des Moines Water Works | 10,619,126 | 10,619,125 | NET ASSETS | | |
| Construction in progress | 4,407,437 | 4,965,733 | Invested in capital assets, net of related debt | 46,280,207 | 43,152,662 |
| | 96,447,263 | 92,325,840 | Restricted for debt service | 2,329,059 | 2,325,033 |
| Less accumulated depreciation | <u>(26,759,066)</u> | <u>(24,525,584)</u> | Restricted for capital improvements | 891,799 | 1,569,012 |
| Net capital assets | <u>69,688,197</u> | <u>67,800,256</u> | Unrestricted | 3,336,695 | 3,494,870 |
| OTHER ASSETS | | | Total net assets | <u>52,837,760</u> | <u>50,541,577</u> |
| Unamortized bond discount | 120,300 | 134,845 | | | |
| Unamortized bond issue costs | <u>68,915</u> | <u>75,952</u> | | | |
| Total other assets | <u>189,215</u> | <u>210,797</u> | | | |
| Total Assets | <u>\$ 79,735,625</u> | <u>\$ 78,484,430</u> | Total Liabilities and Net Assets | <u>\$ 79,735,625</u> | <u>\$ 78,484,430</u> |

See notes to financial statements.

WEST DES MOINES WATER WORKS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Years ended December 31, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|---|------------------|------------------|
| OPERATING REVENUES | | |
| Sale of water | \$ 7,543,132 | \$ 7,099,040 |
| Basic service charge | 778,343 | 756,952 |
| Connection fees | 903,026 | 563,331 |
| EPA grant | 32,445 | 100,134 |
| Labor charges | 28,476 | 49,934 |
| Sanitary sewer service collection fees | 45,066 | 43,954 |
| Solid waste service collection fees | 42,996 | 41,117 |
| Stormwater service collection fees | 63,838 | 61,786 |
| Late and non-payment charges | 86,292 | 79,498 |
| Sale of materials | 47,923 | 71,962 |
| Meter reading fees | 64,691 | 65,155 |
| Shared water tower revenue | 40,468 | 40,243 |
| Miscellaneous | 158,580 | 98,159 |
| Total operating revenues | <u>9,835,276</u> | <u>9,071,265</u> |
| OPERATING EXPENSES | | |
| Water treatment plant operation and maintenance | | |
| Salaries | 693,574 | 652,532 |
| Retirement and employee benefits | 238,551 | 224,762 |
| Utilities | 285,414 | 287,692 |
| Chemicals | 292,614 | 311,557 |
| Purchased water | 542,175 | 564,123 |
| Maintenance | 325,920 | 479,072 |
| Lime residuals removal | 104,770 | 115,658 |
| Insurance | 61,999 | 55,537 |
| Supplies | 23,057 | 20,789 |
| Communications | 18,673 | 19,870 |
| Water quality testing fees | 18,695 | 15,347 |
| Miscellaneous | 3,680 | 3,682 |
| Operation permit | 6,578 | 7,104 |
| Safety consulting fees | 980 | 1,225 |
| Depreciation | 1,035,064 | 1,026,568 |
| Data processing | 1,245 | 19,216 |
| | <u>3,652,989</u> | <u>3,804,734</u> |
| Water distribution system operation and maintenance | | |
| Salaries | 710,915 | 666,637 |
| Retirement and employee benefits | 257,793 | 243,081 |
| Maintenance | 170,470 | 154,288 |
| Utilities | 64,446 | 74,463 |
| Insurance | 37,270 | 38,771 |
| Supplies | 32,038 | 25,855 |

See notes to financial statements.

WEST DES MOINES WATER WORKS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - CONTINUED

Years ended December 31, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|---|------------------|------------------|
| OPERATING EXPENSES - CONTINUED | | |
| Water distribution system operation and maintenance - continued | | |
| Miscellaneous | \$ 410 | \$ 338 |
| Iowa One Call | 4,421 | 4,795 |
| Communications | 5,797 | 5,543 |
| Depreciation | 1,197,575 | 1,147,187 |
| Data processing | <u>7,338</u> | <u>24,833</u> |
| | <u>2,488,473</u> | <u>2,385,791</u> |
| Accounting and customer service | | |
| Salaries | 655,777 | 632,406 |
| Retirement and employee benefits | 222,420 | 220,276 |
| Postage | 79,350 | 86,015 |
| Printing | 68,424 | 49,825 |
| Insurance | 24,823 | 25,419 |
| Supplies | 24,080 | 20,127 |
| Communications | 4,933 | 5,109 |
| Maintenance | 21,855 | 25,124 |
| Bad debts | 4,531 | 2,210 |
| Lock box charges | 52,192 | 45,099 |
| Miscellaneous | 3,138 | 3,941 |
| Utilities | 5,119 | 5,524 |
| Depreciation | 57,860 | 57,839 |
| Cost of materials sold | 40,589 | 62,916 |
| Data processing | <u>20,338</u> | <u>37,066</u> |
| | <u>1,285,429</u> | <u>1,278,896</u> |
| Administration | | |
| Salaries | 221,300 | 210,171 |
| Retirement and employee benefits | 59,907 | 60,308 |
| Professional and consulting fees | 28,757 | 169,725 |
| Legal publications | 4,230 | 6,054 |
| Dues and memberships | 10,639 | 9,796 |
| Communication | 1,782 | 1,708 |
| Miscellaneous | 9,258 | 8,375 |
| Economic development expense | <u>50,000</u> | <u>50,000</u> |
| | <u>385,873</u> | <u>516,137</u> |
| Total operating expenses | <u>7,812,764</u> | <u>7,985,558</u> |
| Operating income | 2,022,512 | 1,085,707 |

See notes to financial statements.

WEST DES MOINES WATER WORKS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - CONTINUED

Years ended December 31, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|---------------------------------|----------------------|----------------------|
| NON-OPERATING REVENUES | | |
| Interest | \$ 268,724 | \$ 561,744 |
| Bond premium | 2,448 | 2,448 |
| Rental | 126,153 | 120,669 |
| Gain on sale of fixed assets | <u>-</u> | <u>5,828</u> |
| Total non-operating revenues | 397,325 | 690,689 |
| NON-OPERATING EXPENSES | | |
| Interest | 823,514 | 937,978 |
| Bond discount | 7,036 | 65,838 |
| Bond issue costs | <u>14,545</u> | <u>49,384</u> |
| Total non-operating expenses | <u>845,095</u> | <u>1,053,200</u> |
| Income before contributions | 1,574,742 | 723,196 |
| CAPITAL CONTRIBUTIONS | <u>721,441</u> | <u>5,624,141</u> |
| CHANGE IN NET ASSETS | 2,296,183 | 6,347,337 |
| NET ASSETS AT BEGINNING OF YEAR | <u>50,541,577</u> | <u>44,194,240</u> |
| NET ASSETS AT END OF YEAR | <u>\$ 52,837,760</u> | <u>\$ 50,541,577</u> |

See notes to financial statements.

WEST DES MOINES WATER WORKS

STATEMENTS OF CASH FLOWS

Years ended December 31, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|--|-----------------------------------|-----------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash received from customers | \$ 9,604,553 | \$ 9,366,675 |
| Cash payments for goods and services | (3,072,436) | (3,347,001) |
| Cash payments to employees | <u>(2,259,360)</u> | <u>(2,133,039)</u> |
| Net cash provided by operating activities | <u>4,272,757</u> | <u>3,886,635</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Acquisition and construction of capital assets | (3,221,827) | (5,620,273) |
| Deposits - shared water tower | (17,410) | (6,545) |
| Proceeds from issuance and refunding of revenue bonds | - | 7,185,000 |
| Principal paid on revenue bonds | (1,451,218) | (8,511,343) |
| Bond discount and bond issuance fees | - | (99,434) |
| Water revenue bond fund deposit | (2,586) | 125,356 |
| Interest paid | <u>(823,514)</u> | <u>(947,525)</u> |
| Net cash used by capital and financing activities | <u>(5,516,555)</u> | <u>(7,874,764)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Interest received | 288,173 | 650,336 |
| Rental income | <u>126,153</u> | <u>120,669</u> |
| Net cash provided by investing activities | <u>414,326</u> | <u>771,005</u> |
| NET (DECREASE) IN CASH AND CASH EQUIVALENTS | (829,472) | (3,217,124) |
| CASH AND CASH EQUIVALENTS BEGINNING OF YEAR | <u>7,889,774</u> | <u>11,106,898</u> |
| CASH AND CASH EQUIVALENTS END OF YEAR | <u><u>\$ 7,060,302</u></u> | <u><u>\$ 7,889,774</u></u> |

See notes to financial statements.

WEST DES MOINES WATER WORKS

STATEMENTS OF CASH FLOWS - CONTINUED

Years ended December 31, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|--|---------------------|---------------------|
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | |
| Operating Income | \$ 2,022,512 | \$ 1,085,707 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 2,290,499 | 2,231,594 |
| Decrease (increase) in assets: | | |
| Accounts receivable | (243,902) | 343,100 |
| Inventory | 13,179 | (47,690) |
| Unexpired insurance | (446) | (3,866) |
| Deposits | - | 3,667 |
| Increase (decrease) in liabilities: | | |
| Customer deposits | 5,941 | 10,612 |
| Accounts payable | 167,444 | 234,647 |
| Accrued payroll | 19,403 | 11,946 |
| Accrued vacation | 2,803 | 16,761 |
| Accrued sales tax | <u>(4,676)</u> | <u>157</u> |
| Total adjustments | <u>2,250,245</u> | <u>2,800,928</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>\$ 4,272,757</u> | <u>\$ 3,886,635</u> |
| Schedule of noncash capital and related financing - Contributions of water mains from contractors for construction, and equipment contributions. | \$ 721,441 | \$ 5,624,141 |

See notes to financial statements.

WEST DES MOINES WATER WORKS

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The West Des Moines Water Works was established by the City of West Des Moines, Iowa to supply water to the City and its inhabitants. Since November 7, 1950, the Water Works has been under the management and control of a Board of Trustees and the accounts of the Water Works are maintained separately from those of the City of West Des Moines, Iowa. The Code of Iowa, Chapter 388, states that the Board of Trustees has the oversight responsibility for the management and control of the Water Works.

Water Works is exempt from federal income tax pursuant to Internal Revenue Code Section 115 which provides for exemption of divisions of state and local governments.

B. Fund Accounting

The accounts of the Water Works are organized on the basis of funds or groups of accounts. Each fund or group of accounts is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of accounts for cash and investment balances, receipts and disbursements. A description of each of the existing funds is set forth as follows:

Water Revenue Fund

The Water Revenue Fund is the general operating fund of the Water Works. This fund is used to account for the utility services which are financed and operated primarily from user charges to the general public.

Bond Retirement Fund

The Bond Retirement Fund is used to provide and account for principal and interest payments on the water revenue bonds issued.

Trust Fund

The Trust Fund has been established to account for deposits received from customers.

C. Cash

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid with maturities of three months or less are considered to be cash equivalents.

D. Investments

The cash balances of the Water Works are pooled and invested. Investments are stated at cost, which approximates market value. Interest is recorded in the fund owning the investment and transferred to the Water Revenue Fund. In order to obtain a high rate of return, some investments are pooled.

WEST DES MOINES WATER WORKS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2008 and 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Accounts Receivable

Accounts receivable and revenues are recorded at the time that service is billed. Unbilled revenues for service consumed between periodic scheduled billing dates are not considered to have a material effect on the financial statements.

F. Inventories

Proprietary fund type inventories of materials and supplies are valued at the lower of cost (average cost) or market.

G. Capital Assets

Property, plant and equipment are stated at cost or at the value of the contributions to the Water Works for mains and hydrants by developers. Depreciation is computed on the straight-line basis over estimated useful lives of five to fifty years.

Expenditures for maintenance, repairs and minor replacements are charged to operations. Expenditures for major repairs and betterments are capitalized.

The cost and related accumulated depreciation on property, plant and equipment sold or retired are eliminated from the accounts at the time of sale or retirement and the resulting gain or loss is reflected in operations.

H. Budget

In accordance with the Code of Iowa, the Water Works adopted a budget based upon anticipated expenditures by line item for operations. The budget was prepared on an accrual basis which is consistent with generally accepted accounting principles.

I. Sanitary Sewer, Solid Waste, and Stormwater Management Service

The West Des Moines Water Works bills and collects sanitary sewer service charges, solid waste charges, and stormwater management fees in accordance with the city ordinances for the City of West Des Moines, Iowa.

Sanitary sewage is collected in sewers owned by the City of West Des Moines, Iowa, and is treated at the Wastewater Reclamation Authority (WRA) sewage treatment plant. Remittances are due to the City within seventy-five days after the end of each billing period. The West Des Moines Water Works is reimbursed for a portion of the expense of billing and collecting the sanitary sewer service, solid waste charges, and stormwater management fees at rates agreed upon by the City of West Des Moines and West Des Moines Water Works.

WEST DES MOINES WATER WORKS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2008 and 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

J. Basis of Accounting

The Proprietary fund types are reported using the accrual basis of accounting. Their revenues are recognized when earned and expenses are recognized when incurred.

Operating revenues and expenses: Operating revenues include revenues resulting from the sale of water and related services. Operating expenses include expenses for water treatment, distribution, depreciation, customer accounts, customer service and informational, sales, administrative and general. Nonoperating revenues and expenses include those derived from capital and related financing activities, noncapital financing activities, and investing activities. Revenues from the sale of water are based on billing rates, which are applied to customer's consumption of water.

The Water Works applies all GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Statements and Interpretations of the Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedures. In addition, Water Works may also apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

K. Net Assets

Net assets represent the difference between assets and liabilities in the financial statements. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used for acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

The Water Works' policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

L. Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

WEST DES MOINES WATER WORKS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2008 and 2007

NOTE 2 - CASH AND INVESTMENTS

The West Des Moines Water Works' deposits in financial institutions as of December 31, 2008 and through the year are covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C, Code of Iowa. This Chapter provides additional assessments against the depositories to ensure that there is no loss of public funds.

As of December 31, 2008, \$2,000,000 was invested in one nine month and in several twelve month certificates of deposit at Veridian Credit Union. The amount of this deposit in excess of \$100,000 was collateralized with a letter of credit held by the Water Works in the amount of 110% or \$2,090,000.

The West Des Moines Water Works' investments are categorized to give an indication of the level of risk assumed by the Water Works at year's end. The West Des Moines Water Works' investments are all category 1, which means that the investments are insured or registered or the securities are held by the West Des Moines Water Works or its agent in the name of the West Des Moines Water Works.

As of December 31, 2008 and 2007 all monies of the West Des Moines Water Works were invested in lawful depositories of the Water Works.

The West Des Moines Water Works' cash and investments at December 31, 2008 are as follows:

| <u>Cash and Investments</u> | <u>Category</u> | |
|-------------------------------------|-----------------|---------------------|
| Cash | 1 | \$ 3,014,082 |
| Certificates of Deposit | 1 | 3,900,000 |
| Iowa Public Agency Investment Trust | 1 | <u>146,220</u> |
| TOTAL | | <u>\$ 7,060,302</u> |

The West Des Moines Water Works cash and investments at December 31, 2007 are as follows:

| <u>Cash and Investments</u> | <u>Category</u> | |
|-------------------------------------|-----------------|---------------------|
| Cash | 1 | \$ 3,459,498 |
| Certificates of Deposit | 1 | 3,600,000 |
| Iowa Public Agency Investment Trust | 1 | <u>830,276</u> |
| TOTAL | | <u>\$ 7,889,774</u> |

WEST DES MOINES WATER WORKS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2008 and 2007

NOTE 3 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2008 was as follows:

| | <u>Balance 1/01/08</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance 12/31/08</u> |
|---|------------------------|---------------------|---------------------|-------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 620,768 | \$ - | \$ - | \$ 620,768 |
| Construction in progress | <u>4,965,733</u> | <u>-</u> | <u>(558,296)</u> | <u>4,407,437</u> |
| Total capital assets not being depreciated | <u>5,586,501</u> | <u>-</u> | <u>(558,296)</u> | <u>5,028,205</u> |
| Capital assets being depreciated: | | | | |
| Buildings and structures | \$19,459,404 | \$ 2,799,923 | \$ - | \$22,259,327 |
| Machinery and equipment | 8,323,161 | 352,909 | (57,017) | 8,619,053 |
| Mains and hydrants | 20,306,909 | 720,616 | - | 21,027,525 |
| Mains and hydrants - developers | 20,938,607 | 721,440 | - | 21,660,047 |
| Wells | 4,495,373 | - | - | 4,495,373 |
| Meters in service | 2,596,760 | 141,847 | - | 2,738,607 |
| DMWW plant capacity 5.0 MG | 5,000,000 | - | - | 5,000,000 |
| DMWW plant capacity 1.323 MG | 1,819,125 | - | - | 1,819,125 |
| DMWW plant capacity 2 MG | <u>3,800,000</u> | <u>-</u> | <u>-</u> | <u>3,800,000</u> |
| Total capital assets being depreciated | <u>86,739,339</u> | <u>4,736,735</u> | <u>(57,017)</u> | <u>91,419,057</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and structures | 5,724,758 | 463,172 | - | 6,187,930 |
| Machinery and equipment | 3,902,090 | 486,385 | (57,017) | 4,331,458 |
| Mains and hydrants | 4,270,336 | 400,895 | - | 4,671,231 |
| Mains and hydrants - developers | 5,758,748 | 417,912 | - | 6,176,660 |
| Wells | 1,622,620 | 133,165 | - | 1,755,785 |
| Meters in service | 1,372,197 | 123,491 | - | 1,495,688 |
| DMWW plant capacity 5.0 MG | 1,343,750 | 125,000 | - | 1,468,750 |
| DMWW plant capacity 1.323 MG | 341,085 | 45,478 | - | 386,563 |
| DMWW plant capacity 2 MG | <u>190,000</u> | <u>95,000</u> | <u>-</u> | <u>285,000</u> |
| Total accumulated depreciation | <u>24,525,584</u> | <u>2,290,498</u> | <u>(57,017)</u> | <u>26,759,065</u> |
| Total capital assets being depreciated, net | <u>62,213,755</u> | <u>2,446,237</u> | <u>-</u> | <u>64,659,992</u> |
| Net capital assets | <u>\$67,800,256</u> | <u>\$ 2,446,237</u> | <u>\$ (558,296)</u> | <u>\$69,688,197</u> |

WEST DES MOINES WATER WORKS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2008 and 2007

NOTE 3 - CAPITAL ASSETS - CONTINUED

Capital assets activity for the year ended December 31, 2007 was as follows:

| | <u>Balance 1/01/07</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance 12/31/07</u> |
|---|------------------------|---------------------|----------------------|-------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 620,768 | \$ - | \$ - | \$ 620,768 |
| Construction in progress | <u>1,490,516</u> | <u>5,491,037</u> | <u>(2,015,820)</u> | <u>4,965,733</u> |
| Total capital assets not being depreciated | <u>2,111,284</u> | <u>5,491,037</u> | <u>(2,015,820)</u> | <u>5,586,501</u> |
| Capital assets being depreciated: | | | | |
| Buildings and structures | \$18,915,414 | \$ 614,683 | \$ (70,693) | \$19,459,404 |
| Machinery and equipment | 8,266,268 | 340,316 | (283,423) | 8,323,161 |
| Mains and hydrants | 19,191,573 | 1,316,791 | (201,455) | 20,306,909 |
| Mains and hydrants - developers | 15,506,470 | 5,624,141 | (192,004) | 20,938,607 |
| Wells | 4,748,318 | - | (252,945) | 4,495,373 |
| Meters in service | 2,663,499 | 127,133 | (193,872) | 2,596,760 |
| DMWW plant capacity 5.0 MG | 5,000,000 | - | - | 5,000,000 |
| DMWW plant capacity 1.323 MG | 1,819,125 | - | - | 1,819,125 |
| DMWW plant capacity 2 MG | <u>3,800,000</u> | <u>-</u> | <u>-</u> | <u>3,800,000</u> |
| Total capital assets being depreciated | <u>79,910,667</u> | <u>8,023,064</u> | <u>(1,194,392)</u> | <u>86,739,339</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and structures | 5,394,803 | 400,648 | (70,693) | 5,724,758 |
| Machinery and equipment | 3,694,949 | 490,564 | (283,423) | 3,902,090 |
| Mains and hydrants | 4,075,512 | 396,279 | (201,455) | 4,270,336 |
| Mains and hydrants - developers | 5,533,180 | 417,572 | (192,004) | 5,758,748 |
| Wells | 1,737,452 | 138,113 | (252,945) | 1,622,620 |
| Meters in service | 1,443,130 | 122,939 | (193,872) | 1,372,197 |
| DMWW plant capacity 5.0 MG | 1,218,750 | 125,000 | - | 1,343,750 |
| DMWW plant capacity 1.323 MG | 295,607 | 45,478 | - | 341,085 |
| DMWW plant capacity 2 MG | <u>95,000</u> | <u>95,000</u> | <u>-</u> | <u>190,000</u> |
| Total accumulated depreciation | <u>23,488,383</u> | <u>2,231,593</u> | <u>(1,194,392)</u> | <u>24,525,584</u> |
| Total capital assets being depreciated, net | <u>56,422,284</u> | <u>5,791,471</u> | <u>-</u> | <u>62,213,755</u> |
| Net capital assets | <u>\$58,533,568</u> | <u>\$11,282,508</u> | <u>\$(2,015,820)</u> | <u>\$67,800,256</u> |

WEST DES MOINES WATER WORKS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2008 and 2007

NOTE 4 - LONG TERM LIABILITIES

The West Des Moines Water Works entered into an agreement with the Des Moines Water Works for the construction of the Louise P. Moon Storage and Pumping Facility (f.k.a. the Westside Storage and Pumping Facility). Per the Water Service Enhancement Master Agreement dated April 12, 1993 (as amended), the West Des Moines Water Works' proportionate share of the Des Moines Water Works Bonds, Series 2001 issued by the Des Moines Water Works has been reduced to \$3,385,816 from \$3,570,462. This reduction is due to a materials valuation adjustment made in April, 2005. The interest rates on the bonds vary from 3.0% to 3.6%. The final payment on these bonds was made December 1, 2007.

PURCHASE OF WATER TREATMENT PLANT CAPACITY:

- A. The West Des Moines Water Works entered into an agreement with the Des Moines Water Works for the purchase of five million gallons per day of water treatment plant capacity. Per the Water Treatment Plant Purchased Capacity Master Agreement dated July 23, 1996, the West Des Moines Water Works' proportionate share of the Des Moines Water Works Bonds, Series 1997 issued by the Des Moines Water Works is \$5,640,000. The interest rates on the bonds vary from 5.25% to 5.40%.

Series 1997 bonds have been replaced by the Refunding Water Revenue Bonds Series 2004B. In order to reduce interest costs, the Des Moines Water Works issued Refunding Water Revenue Bonds Series 2004B effective December 1, 2004 to carry out an advance refunding of callable maturities from their Series 1997 Bonds. The interest rates on the bonds vary from 2.5% to 4.0%.

- B. The West Des Moines Water Works entered into the First Amendment to Acceptance of Purchased Capacity Master Agreement on May 23, 2000. West Des Moines Water Works agreed to pay for additional capacity of 1.323 million gallons per day by assumption of \$1,819,125 of the Des Moines Water Works' outstanding obligation under the 1997 Bond Issue. The interest rates on the bonds vary from 5.25% to 5.40%.

Series 1997 bonds have been replaced by the Refunding Water Revenue Bonds Series 2004B. In order to reduce interest costs, the Des Moines Water Works issued Refunding Water Revenue Bonds Series 2004B effective December 1, 2004 to carry out an advance refunding of callable maturities from their Series 1997 Bonds. The interest rates on the bonds vary from 2.5% to 4.0%.

- C. The West Des Moines Water Works entered into the Wholesale Water Service Master Agreement with the Des Moines Water Works on June 13, 2005, agreeing to purchase an additional two million gallons per day of water treatment plant capacity. West Des Moines Water Works' proportionate share in the Des Moines Water Works 2006 Water Revenue Bonds is \$4,105,000. The interest rates on the bonds vary from 4.000% to 4.375%.

PLANT AND DISTRIBUTION CAPITAL IMPROVEMENTS:

The Series 2004 Water Revenue Refunding, and 2007 Water Revenue Refunding Bonds were issued by the West Des Moines Water Works, under resolutions of the Board of Trustees of the Water Works. Series 1998A and 1998B were redeemed by the 2007 Water Revenue Refunding bonds on June 1, 2007. The following is a summary of the major provisions and restrictions of the resolutions.

WEST DES MOINES WATER WORKS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2008 and 2007

NOTE 4 - LONG TERM LIABILITIES - CONTINUED

Interest is payable on the first day of June and December.

Bonds and interest are payable from the future net earnings of the Water Works and the net earnings of the Water Works are pledged to the payment of the bonds and interest.

The required amount to be deposited in the Sinking Fund in any month shall be an amount equal to 1/6th of the installment of interest coming due on the next interest payment date on the then outstanding Bonds and Parity Bonds plus 1/12th of the installment of principal coming due on such Bonds on the next succeeding principal payment date until the full amount of such installment is on hand. The balance at December 31, 2008 and 2007 is \$100,910 and \$96,884, respectively.

The Bond Resolution requires that the Debt Service Reserve Fund be maintained in an amount equal to at least the lesser of the maximum annual debt service on the Bonds and the Parity Bonds, or 10% of the stated principal amount of the Bonds and Parity Bonds. The balance at December 31, 2008 and 2007 is at the maximum of \$1,250,000 and \$1,250,000, respectively.

In the Future Capital Outlay Fund, the minimum amount to be deposited in the Fund each month shall be \$30,000; provided, however, that when the amount in said fund shall equal or exceed \$750,000, no further monthly deposits need be made into the Fund except to maintain it at such level. The balance at December 31, 2008 and 2007 is \$743,315 and \$1,451,036, respectively.

Changes in long-term obligations for the year ended December 31, 2008 are as follows:

| | Balance 01-01-2008 | Increases | Decreases | Balance 12-31-2008 | Due Within One Year |
|-----------------------------|-----------------------|-------------|-----------------------|-----------------------|------------------------|
| Water Revenue Bonds | | | | | |
| Series 2004 Refunding | \$ 5,265,000 | \$ - | \$ (55,000) | \$ 5,210,000 | \$ 555,000 |
| Series 2007 Refunding | 6,300,000 | - | (675,000) | 5,625,000 | 205,000 |
| Series 2004B (DMWW) | 5,317,342 | - | (475,871) | 4,841,471 | 501,734 |
| Series 2004B (DMWW) | 1,280,714 | - | (100,347) | 1,180,367 | 105,519 |
| Series 2006 (DMWW - 2MG) | 3,925,000 | - | (145,000) | 3,780,000 | 145,000 |
| | <u>\$22,088,056</u> | <u>\$ -</u> | <u>\$ (1,451,218)</u> | <u>\$20,636,838</u> | <u>\$1,512,253</u> |

WEST DES MOINES WATER WORKS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2008 and 2007

NOTE 4 - LONG TERM LIABILITIES - CONTINUED

Details of the revenue bonds payable at December 31, 2008 are as follows:

| | Date of Issue | Interest Rate | Final Due Date | Annual Payments | Amount Originally Issued | Outstanding Dec. 31, 2008 |
|-----------------------|------------------|------------------|----------------------|-----------------------|--------------------------------|------------------------------|
| Series 2004 Refunding | 04/01/04 | 2.0 - 3.9% | 12/01/16 | \$241,000-\$791,000 | \$ 5,415,000 | \$ 5,210,000 |
| Series 2007 Refunding | 04/01/07 | 3.75 - 4.0% | 12/01/18 | \$180,000-\$2,045,000 | 7,185,000 | 5,625,000 |
| Series 2004B (DMWW) | 12/01/04 | 2.5 - 4.0% | 12/01/16 | \$239,000-\$753,000 | 5,498,380 | 4,841,471 |
| Series 2004B DMWW) | 12/01/04 | 2.5 - 4.0% | 12/01/17 | \$138,000-\$167,000 | 1,550,719 | 1,180,367 |
| Series 2006 (DMWW) | 03/01/06 | 4.0 - 4.38% | 12/01/26 | \$197,000-\$308,000 | 4,150,000 | <u>3,780,000</u> |
| Total | | | | | | <u>\$20,636,838</u> |

A summary of the annual revenue bonds principal and interest requirements to maturity as of December 31, 2008 is as follows:

| Year Ending Dec. 31, | Principal | Interest | Total |
|----------------------------|---------------------|---------------------|---------------------|
| 2009 | \$ 1,512,253 | \$ 777,888 | \$ 2,290,141 |
| 2010 | 1,583,288 | 729,532 | 2,312,820 |
| 2011 | 1,645,358 | 677,306 | 2,322,664 |
| 2012 | 1,722,600 | 621,755 | 2,344,355 |
| 2013 | 1,800,876 | 560,929 | 2,361,805 |
| 2014-2018 | 10,342,463 | 1,688,463 | 12,030,926 |
| 2019-2023 | 1,190,000 | 334,244 | 1,524,244 |
| 2024-2026 | <u>840,000</u> | <u>74,812</u> | <u>914,812</u> |
| Totals | <u>\$20,636,838</u> | <u>\$ 5,464,929</u> | <u>\$26,101,767</u> |

Changes in long-term obligations for the year ended December 31, 2007 are as follows:

| | Balance 01-01-2007 | Increases | Decreases | Balance 12-31-2007 | Due Within One Year |
|-----------------------|-----------------------|---------------------|-----------------------|-----------------------|------------------------|
| Water Revenue Bonds | | | | | |
| Series 1998A | \$ 1,350,000 | \$ - | \$ (1,350,000) | \$ - | \$ - |
| Series 1998B | 5,735,000 | - | (5,735,000) | - | - |
| Series 2004 Refunding | 5,315,000 | - | (50,000) | 5,265,000 | 55,000 |
| Series 2007 Refunding | - | 7,185,000 | (885,000) | 6,300,000 | 675,000 |
| Series 2001 (DMWW) | 203,409 | - | (203,409) | - | - |
| Series 2004B (DMWW) | 5,400,102 | - | (82,760) | 5,317,342 | 475,871 |
| Series 2004B (DMWW) | 1,375,888 | - | (95,174) | 1,280,714 | 100,347 |
| Series 2006 | | | | | |
| (DMWW - 2MG) | <u>4,035,000</u> | <u>-</u> | <u>(110,000)</u> | <u>3,925,000</u> | <u>145,000</u> |
| | <u>\$23,414,399</u> | <u>\$ 7,185,000</u> | <u>\$ (8,511,343)</u> | <u>\$22,088,056</u> | <u>\$1,451,218</u> |

WEST DES MOINES WATER WORKS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2008 and 2007

NOTE 4 - LONG TERM LIABILITIES - CONTINUED

Details of the revenue bonds payable at December 31, 2007 are as follows:

| | Date of Issue | Interest Rate | Final Due Date | Annual Payments | Amount Originally Issued | Outstanding Dec. 31, 2007 |
|-----------------------|------------------|------------------|----------------------|-----------------------|--------------------------------|------------------------------|
| Series 2004 Refunding | 04/01/04 | 2.0 - 3.9% | 12/01/16 | \$241,000-\$791,000 | \$ 5,415,000 | \$ 5,265,000 |
| Series 2007 Refunding | 04/01/07 | 3.75 - 4.0% | 12/01/18 | \$180,000-\$2,045,000 | 7,185,000 | 6,300,000 |
| Series 2004B (DMWW) | 12/01/04 | 2.5 - 4.0% | 12/01/16 | \$239,000-\$753,000 | 5,498,380 | 5,317,342 |
| Series 2004B DMWW) | 12/01/04 | 2.5 - 4.0% | 12/01/17 | \$138,000-\$167,000 | 1,550,719 | 1,280,714 |
| Series 2006 (DMWW) | 03/01/06 | 4.0 - 4.38% | 12/01/26 | \$197,000-\$308,000 | 4,150,000 | <u>3,925,000</u> |
| Total | | | | | | <u>\$22,088,056</u> |

A summary of the annual revenue bonds principal and interest requirements to maturity as of December 31, 2007 is as follows:

| Year Ending Dec. 31, | Principal | Interest | Total |
|----------------------------|---------------------|---------------------|---------------------|
| 2008 | \$ 1,451,218 | \$ 827,660 | \$ 2,278,878 |
| 2009 | 1,512,253 | 777,888 | 2,290,141 |
| 2010 | 1,583,288 | 729,532 | 2,312,820 |
| 2011 | 1,645,358 | 677,306 | 2,322,664 |
| 2012 | 1,722,600 | 621,755 | 2,344,355 |
| 2013-2017 | 9,888,339 | 2,073,630 | 11,961,969 |
| 2018-2022 | 3,190,000 | 510,006 | 3,700,006 |
| 2023-2026 | <u>1,095,000</u> | <u>74,812</u> | <u>1,169,812</u> |
| Totals | <u>\$22,088,056</u> | <u>\$ 6,292,589</u> | <u>\$28,380,645</u> |

NOTE 5 - RESTRICTED ASSETS

The West Des Moines Water Works' restricted assets are composed of customer deposits, deposits on bond issuance, funds restricted for capital improvements and collections for sanitary sewer service, solid waste service, stormwater management fees, and human services donations for the City of West Des Moines.

NOTE 6 - PENSION AND RETIREMENT BENEFIT

The Water Works contributes to the Iowa Public Employees Retirement System (IPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

WEST DES MOINES WATER WORKS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2008 and 2007

NOTE 6 - PENSION AND RETIREMENT BENEFIT - CONTINUED

Plan members are required to contribute a percentage of their annual salary and the Water Works is also required to contribute a percentage of the annual covered payroll to IPERS as established by State statute. Contribution requirements for employees for 2008 were 3.90% from January 1 through June 30 and 4.10% from July 1 through December 31. Contribution requirements for West Des Moines Water Works were 6.05% from January 1 through June 30 and 6.35% from July 1 through December 31. The Water Works' contributions to IPERS for the years ended December 31, 2008, 2007, and 2006 were \$138,642, \$124,499, and \$111,120, respectively, equal to the required contributions for each year.

NOTE 7 - COMPENSATED ABSENCES

The West Des Moines Water Works' employees accumulate vacation benefits for subsequent use or payable on termination, death or retirement. These accumulations are recorded as liabilities and expenses in the year earned.

The West Des Moines Water Works does not accrue a liability related to the accumulation of sick leave, because its policy states that the amounts are payable only on retirement. Therefore, individual payment is not necessarily probable and is not subject to estimation.

NOTE 8 - DEFERRED COMPENSATION PLAN

West Des Moines Water Works offers to all of its full-time employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits the employees to defer a portion of their salary until future years. The deferred compensation is not available for payment to employees until termination, retirement, death, or unforeseeable emergency.

West Des Moines Water Works implemented Governmental Accounting Standards Board Statements No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, which requires assets of a governmental sponsored 457 plan to be held in a trust for the exclusive benefit of participants and their beneficiaries. Internal Revenue Code Section 457(g)(3) as amended, provides that an annuity contract described in Code Section 401(f) shall be treated as a trust.

The 457 plan administrators prepared amendments to the existing contracts to meet the requirements of Code Section 401(f). The amendments also provide that the assets and income of the contracts are for the exclusive benefit of the plan participants or beneficiaries, and would not be subject to the claims of the governmental employer's creditors. Accordingly, these plan assets are not reported in the Water Works' financial statements.

NOTE 9 - INTERGOVERNMENTAL AGREEMENTS

On May 14, 2001 the Water Works approved the first amendment to intergovernmental agreement for the joint occupation of municipal offices (Chapter 28E of the Code of Iowa) with the City of West Des Moines for joint occupancy in a new City Hall facility. The West Des Moines Water Works' total cost is \$546,761, of which \$546,761 has been paid.

WEST DES MOINES WATER WORKS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2008 and 2007

NOTE 9 - INTERGOVERNMENTAL AGREEMENTS - CONTINUED

On May 14, 1993 the Water Works entered into an intergovernmental agreement (Chapter 28E of the Code of Iowa) with the City of West Des Moines and the Park Board of Commissioners of the West Des Moines Parks and Recreation Department. Under the agreement, they jointly developed a parcel of land (58 acres) owned by the City to provide recreation resources and water resources for residents. The Water Works constructed eight shallow wells and one deep well on the site. The Water Works has paid the City \$450,000 for the use of the land. This agreement is for ninety-nine years and expires on May 14, 2092.

On February 27, 2002 the Water Works entered into an amended and substituted intergovernmental agreement (Chapter 28E of the Code of Iowa) for the purpose of (1) creating the Central Iowa Committee to succeed the Urban Standard Specifications Committee; (2) authorizing the Central Iowa Committee to temporarily license said urban design standards and urban standard specifications to the Center for Transportation Research and Education (CTRE) and to the Iowa Department of Transportation (Iowa DOT); (3) authorizing the Central Iowa Committee to assign said urban design standards and urban standard specifications to a statewide organization to be formed to oversee the continuing development and upgrading thereof; and (4) authorizing the City of Des Moines, as administrator, to assign to CTRE its consultant contract with Snyder and Associates for the provision of professional services. Under the agreement design standards will be developed and updated, and standard specifications for the construction of public improvements will be developed.

On November 20, 2003 the Water Works entered into an Agreement for Shared Use of Water Tower Capacity (this is not a 28E agreement) with the City of Clive, the City of Waukee and the Des Moines Water Works. On November 1, 2005 that water tower was put into service. The cities of Clive and Waukee pay 40% and 20% respectively, of the total project cost to West Des Moines Water Works for shared capacity of the water tower. The water tower is recorded at cost on West Des Moines Water Works' fixed asset schedule, and the payments made by Clive and Waukee are recorded as a deferred revenue liability to be recognized over the 50 year life of the water tower. This agreement will remain in effect through the useful life of the water tower plus one year. A shared water tower fund has been created into which Clive, Waukee and West Des Moines Water Works contribute annually for property insurance and future painting of the tower.

On November 1, 2005 the Water Works entered into intergovernmental (Chapter 28E of the Code of Iowa) agreements for meter reading services with the City of Clive and the City of Waukee. West Des Moines Water Works will read water meters for Clive and water and gas meters for Waukee. The initial term of these agreements is three years from November 1, 2005. Addendum "A" to this agreement was signed in July 2008 establishing the meter reading rates for the subsequent three years. This addendum became effective November 1, 2008. Thereafter, the term of services shall automatically renew for successive three year terms on each November 1st unless either party shall give written notice of termination to the other.

NOTE 10 - RELATED ORGANIZATION

The West Des Moines Water Works uses services of the City of West Des Moines and also provides billing and collection services to the City in connection with the City's Sewer, Solid Waste, and Stormwater Management Enterprise Funds. The following is a summary of the related party transactions for the year ended December 31, 2008 and 2007:

WEST DES MOINES WATER WORKS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2008 and 2007

NOTE 10 - RELATED ORGANIZATION - CONTINUED

| | Amount <u>2008</u> | Amount <u>2007</u> |
|---|-----------------------|-----------------------|
| Received from the City of West Des Moines | | |
| Miscellaneous | \$ 2,400 | \$ 105 |
| Iowa One Call | 4,370 | 5,956 |
| Sanitary sewer service collection fees | 45,066 | 43,954 |
| Solid waste service collection fees | 42,996 | 41,117 |
| Stormwater service collection fees | 63,838 | 61,786 |
| Payments to the City of West Des Moines | | |
| Sanitary sewer service | \$5,550,038 | \$5,195,585 |
| Solid waste service | 1,632,234 | 1,475,601 |
| Sewer availability fee | 338,211 | 228,833 |
| City capital fee | 31,553 | 42,379 |
| Stormwater services | 1,579,727 | 1,314,329 |
| Premium yard waste fee | 16,140 | - |
| Health and dental insurance premiums | 441,347 | 467,348 |
| General insurance premiums | 126,047 | 125,072 |
| Gasoline | 52,519 | 39,283 |
| Utilities | 16,959 | 17,564 |
| Miscellaneous | 4,185 | 2,524 |
| Donations collected | 7,778 | 7,452 |
| Janitorial services | 12,157 | 16,358 |
| Information services | - | 35,000 |
| West Des Moines Magazine and City Survey | 5,000 | 2,625 |
| City Hall fountain repairs | 1,300 | - |
| Computers/Network server | - | 6,553 |
| Railroad Avenue reconstruction | - | 98 |
| Economic development | 50,000 | 50,000 |
| Water mains | 729,966 | - |

Amounts payable to the City of West Des Moines at December 31, 2008 for sanitary sewer charges, sewer availability fees, city capital fees, stormwater management fees, solid waste charges, premium yard waste and donations to human services totaled \$1,451,667, \$104,087, \$7,152, \$441,174, \$412,324, \$180, and \$860, respectively and for 2007 \$1,349,615, \$77,143, \$7,251, \$370,294, \$407,720, \$4,200 and \$1,256, respectively.

NOTE 11 - RISK MANAGEMENT

The Water Works, through the City of West Des Moines, is a member of the Iowa Communities Assurance Pool (Pool), as allowed by Chapter 670.7 of the Code of Iowa. The Pool is a local government risk-sharing pool whose 578 members include various governmental entities throughout the state of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

WEST DES MOINES WATER WORKS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2008 and 2007

NOTE 11 - RISK MANAGEMENT - CONTINUED

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The Water Works' property and casualty contributions to the Pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The Water Works' contributions to the Pool for the year ended December 31, 2008 were \$38,135.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. West Des Moines Water Works' coverage is \$8,000,000. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The Water Works does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at December 31, 2008, no liability has been recorded in the Water Works' financial statements. As of June 30, 2008 settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. After the sixth year, the member is refunded 100% of its capital contributions, however, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

WEST DES MOINES WATER WORKS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2008 and 2007

NOTE 11 - RISK MANAGEMENT - CONTINUED

The Water Works also carries commercial insurance purchased from other insurers for coverage associated with workers' compensation, and employee blanket bonds. The Water Works assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 12 - TOWER LEASE AGREEMENTS

The Water Works has entered into agreements with T-Mobile USA, Inc., United States Cellular Wireless Communications, Sprint/Nextel, Capital Communications Company, Inc., AT & T Wireless and Verizon Wireless for the rental of space on two elevated water storage facilities located in the City of West Des Moines. The agreements are for a period of five years. The agreement with Sprint Spectrum L.P. (Now Sprint/Nextel) has a renewal option of four additional five year terms and the other agreements have the renewal option of five additional five year terms.

Future minimum rents under these leases at December 31, 2008 are as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------|---------------|
| 2009 | \$125,974 |
| 2010 | 128,442 |
| 2011 | 133,295 |
| 2012 | 137,077 |
| 2013 | 143,661 |

Total rental income for 2008 was \$126,153.

NOTE 13 - UNION AGREEMENT

The West Des Moines Water Works entered into an agreement as of January 1, 2007 with the American Federation of State, County and Municipal Employees Council 61 and Local 3673-15 (AFL-CIO). This agreement remained in full force and effect through December 31, 2008. This agreement will continue through December 31, 2009.

NOTE 14 - COMMITMENTS

The West Des Moines Water Works has entered into construction contracts totaling \$7,663,963 at December 31, 2008 and \$7,227,944 at December 31, 2007 for various capital projects. There were \$713,537 and \$909,827 of uncompleted contracts at December 31, 2008 and 2007 respectively.

On September 27, 2004 the U.S. Environmental Protection Agency (EPA) awarded the Water Works a grant for the operation of the Groundwater Remedial Action at the Railroad Avenue Superfund Site. Activities include the cleanup of contaminated groundwater and monitoring and administration of the aerators. The project period is from January 1, 2005 through December 31, 2011. The total project cost is projected to be approximately \$513,000. The EPA has approved partial funding up to and not exceeding \$350,000 at this time.

REQUIRED SUPPLEMENTARY INFORMATION

WEST DES MOINES WATER WORKS

BUDGETARY COMPARISON OF REVENUES, EXPENSES AND CHANGES IN BALANCES - ACTUAL TO BUDGET

Year ended December 31, 2008

| | <u>Actual</u> | <u>Budget</u> | Variance Favorable (Unfavorable) |
|---------------------------|----------------------|----------------------|--|
| TOTAL REVENUES | \$ 10,954,042 | \$ 11,126,016 | \$ (171,974) |
| TOTAL EXPENSES | <u>8,657,859</u> | <u>9,537,910</u> | <u>880,051</u> |
| NET | 2,296,183 | 1,588,106 | <u>\$ 708,077</u> |
| BALANCE BEGINNING OF YEAR | <u>50,541,577</u> | <u>46,075,381</u> | |
| BALANCE END OF YEAR | <u>\$ 52,837,760</u> | <u>\$ 47,663,487</u> | |

See notes to financial statements.

WEST DES MOINES WATER WORKS

NOTE TO BUDGETARY REPORTING

December 31, 2008

In accordance with the Code of Iowa, the Water Works' Board of Trustees adopts a budget on the accrual basis consistent with U.S. generally accepted accounting principles following required public notice and hearing. The formal and legal level of control is at the total expense level. The Board of Trustees reviews the proposed budget and grants final approval. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

In 2008 there were no budget amendments and disbursements did not exceed the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

WEST DES MOINES WATER WORKS

SCHEDULE OF BOND MATURITIES

Year ended December 31, 2008

Proportionate share of Series 2004B Water Revenue Refunding Bonds issued by the Des Moines Water Works and payable to the Des Moines Water Works per Water Treatment Plant Purchased Capacity Master Agreement dated July 23, 1996 (See Note 4).

The following is a summary of the debt obligations to the Des Moines Water Works:

| <u>Maturing December 1</u> | <u>Des Moines Water Works</u> | |
|----------------------------|---|-------------------|
| | <u>Series 2004B Water Revenue Refunding Bonds</u> | |
| | <u>Principal</u> | <u>Interest</u> |
| 2009 | \$ 501,734 | \$ 173,447 |
| 2010 | 527,596 | 158,395 |
| 2011 | 553,459 | 142,568 |
| 2012 | 584,494 | 125,964 |
| 2013 | 615,529 | 106,968 |
| 2014 | 651,736 | 82,346 |
| 2015 | 682,771 | 56,277 |
| 2016 | 724,152 | 28,966 |
| | <u>\$ 4,841,471</u> | <u>\$ 874,931</u> |

WEST DES MOINES WATER WORKS

SCHEDULE OF BOND MATURITIES - CONTINUED

Year ended December 31, 2008

Proportionate share of Series 2004B Water Revenue Refunding Bonds issued by the Des Moines Water Works and payable to the Des Moines Water Works per First Amendment to Acceptance of Purchased Capacity Master Agreement dated May 23, 2000 (See Note 4).

The following is a summary of the debt obligations to the Des Moines Water Works:

| <u>Maturing December 1</u> | <u>Des Moines Water Works</u> | |
|----------------------------|---|-------------------|
| | <u>Series 2004B Water Revenue Refunding Bonds</u> | |
| | <u>Principal</u> | <u>Interest</u> |
| 2009 | \$ 105,519 | \$ 42,960 |
| 2010 | 110,692 | 39,795 |
| 2011 | 116,899 | 36,474 |
| 2012 | 123,106 | 32,967 |
| 2013 | 130,347 | 28,966 |
| 2014 | 136,554 | 23,752 |
| 2015 | 144,830 | 18,290 |
| 2016 | 152,072 | 12,497 |
| 2017 | 160,348 | 6,413 |
| | <u>\$ 1,180,367</u> | <u>\$ 242,114</u> |

WEST DES MOINES WATER WORKS

SCHEDULE OF BOND MATURITIES - CONTINUED

Year ended December 31, 2008

Proportionate share of Series 2006 Water Revenue Bonds issued by the Des Moines Water Works and payable to the Des Moines Water Works per the Wholesale Water Service Master Agreement signed June 13, 2005 (See Note 4).

| <u>Maturing December 1</u> | <u>Des Moines Water Works</u> | |
|----------------------------|--|---------------------|
| | <u>Series 2006 Water Revenue Bonds</u> | |
| | <u>Principal</u> | <u>Interest</u> |
| 2009 | \$ 145,000 | \$ 155,563 |
| 2010 | 155,000 | 149,762 |
| 2011 | 155,000 | 143,563 |
| 2012 | 165,000 | 137,362 |
| 2013 | 170,000 | 130,763 |
| 2014 | 175,000 | 123,962 |
| 2015 | 185,000 | 116,963 |
| 2016 | 190,000 | 109,562 |
| 2017 | 200,000 | 101,963 |
| 2018 | 210,000 | 93,962 |
| 2019 | 220,000 | 85,563 |
| 2020 | 230,000 | 76,762 |
| 2021 | 240,000 | 67,275 |
| 2022 | 245,000 | 57,375 |
| 2023 | 255,000 | 47,269 |
| 2024 | 265,000 | 36,750 |
| 2025 | 280,000 | 25,156 |
| 2026 | 295,000 | 12,906 |
| | <u>\$ 3,780,000</u> | <u>\$ 1,672,481</u> |

WEST DES MOINES WATER WORKS

SCHEDULE OF BOND MATURITIES - CONTINUED

Year ended December 31, 2008

Series 2004 Water Revenue Refunding Bonds: Series 2004 Water Revenue Refunding Bonds were issued under Resolutions adopted by the Board of Trustees.

The Refunding Bonds were issued to refund all or a portion of the Water Works' outstanding Water Revenue Bonds Series 1997 (the "Refunded Bonds"). The original date of issue was April 1, 2004.

The proceeds of the original Bonds were used to finance certain capital improvements to the System (the "Project") and to pay costs of issuing the Bonds. The Project included: (i) the construction and/or purchase of water supply and distribution facilities and the land for such facilities, (ii) the construction of additional water treatment capacity, (iii) the construction facilities for handling water treatment plant residues, (iv) improvements to the electrical distribution system of the water treatment plant, (v) improvements to the electronic control system of the Water Works and (vi) construction of new and replacement water mains (See Note 4).

The following is a summary of the debt obligations of the West Des Moines Water Works:

| <u>Maturing December 1</u> | <u>West Des Moines Water Works</u> | |
|----------------------------|--|-------------------|
| | <u>Series 2004 Water Revenue Refunding Bonds</u> | |
| | <u>Principal</u> | <u>Interest</u> |
| 2009 | \$ 555,000 | \$ 186,788 |
| 2010 | 610,000 | 170,137 |
| 2011 | 605,000 | 150,008 |
| 2012 | 645,000 | 128,832 |
| 2013 | 640,000 | 105,290 |
| 2014 | 690,000 | 81,930 |
| 2015 | 735,000 | 56,400 |
| 2016 | 730,000 | 28,470 |
| | <u>\$ 5,210,000</u> | <u>\$ 907,855</u> |

WEST DES MOINES WATER WORKS

SCHEDULE OF BOND MATURITIES - CONTINUED

Year ended December 31, 2008

Series 2007 Water Revenue Refunding Bonds: Series 2007 Water Revenue Refunding Bonds were issued under Resolutions adopted by the Board of Trustees.

The Refunding Bonds were issued to refund all or a portion of the Water Works' outstanding Water Revenue Bonds Series 1998A and 1998B (the "Refunded Bonds"). The original date of issue was April 1, 2007.

The proceeds of the original Bonds were used to finance certain capital improvements to the System (the "Project") and to pay costs of issuing the Series 2007 Bonds. The Project included: (i) upgrades to the Water Works' water treatment plant and water storage facilities and (ii) construction of a new pumping station. The Refunding Bonds were issued to refund all or a portion of the Water Works' outstanding Water Revenue Bonds Series 1998A and 1998B (the "Refunded Bonds"). (See Note 4).

The following is a summary of the debt obligations of the West Des Moines Water Works:

| <u>Maturing December 1</u> | <u>West Des Moines Water Works</u> | |
|----------------------------|--|---------------------|
| | <u>Series 2007 Water Revenue Refunding Bonds</u> | |
| | <u>Principal</u> | <u>Interest</u> |
| 2009 | \$ 205,000 | \$ 219,130 |
| 2010 | 180,000 | 211,443 |
| 2011 | 215,000 | 204,693 |
| 2012 | 205,000 | 196,630 |
| 2013 | 245,000 | 188,942 |
| 2014 | 240,000 | 179,755 |
| 2015 | 225,000 | 170,755 |
| 2016 | 260,000 | 162,205 |
| 2017 | 1,805,000 | 152,195 |
| 2018 | 2,045,000 | 81,800 |
| | <u>\$ 5,625,000</u> | <u>\$ 1,767,548</u> |

STATISTICAL SECTION (UNAUDITED)

WEST DES MOINES WATER WORKS
SCHEDULE OF WATER USAGE BY MONTH

Year ended December 31, 2008

(UNAUDITED)

| <u>Month</u> | <u>Accounts with Water Service</u> | <u>Dollar Amount of Water Billings</u> | <u>Gallons of Water Billed</u> | <u>Gallons of Water Pumped</u> |
|------------------------------------|--|--|------------------------------------|------------------------------------|
| January | 20,632 | \$ 584,319 | 157,588,700 | 161,915,000 |
| February | 20,658 | 462,927 | 124,810,292 | 151,223,000 |
| March | 20,695 | 446,882 | 120,729,140 | 160,766,000 |
| April | 20,726 | 448,139 | 121,218,742 | 159,237,000 |
| May | 20,746 | 718,460 | 193,497,232 | 213,729,000 |
| June | 20,802 | 607,631 | 163,285,867 | 222,170,000 |
| July | 20,835 | 980,333 | 265,045,368 | 275,680,000 |
| August | 20,860 | 850,994 | 228,649,316 | 298,501,000 |
| September | 20,887 | 804,877 | 215,132,405 | 237,339,000 |
| October | 20,927 | 707,062 | 189,586,105 | 180,120,000 |
| November | 20,969 | 463,790 | 124,576,941 | 158,917,000 |
| December | 20,986 | <u>467,718</u> | <u>124,242,000</u> | <u>162,961,000</u> |
| | | \$ 7,543,132 | 2,028,362,108 | 2,382,558,000 |
| ADD: | | | | |
| Metered water for City (\$0.00) | | - | 12,679,000 | - |
| Other non-billed water | | <u>-</u> | <u>10,586,228</u> | <u>-</u> |
| Totals | | <u>\$ 7,543,132</u> | <u>2,051,627,336</u> | <u>2,382,558,000</u> |



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees
West Des Moines Water Works

We have audited the financial statements of West Des Moines Water Works as of and for the years ended December 31, 2008 and 2007, and have issued our report thereon dated March 20, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit we considered West Des Moines Water Works' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Water Works' internal control. Accordingly, we do not express an opinion on the effectiveness of the Water Works' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the West Des Moines Water Works' internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the West Des Moines Water Works' internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether West Des Moines Water Works' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of

our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the West Des Moines Water Works' operations for the year ended December 31, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Water Works. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those matters.

This report, a public record by law, is intended solely for the information and use of the officials, employees and customers of the West Des Moines Water Works and other parties to whom the West Des Moines Water Works may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the West Des Moines Water Works during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Martens & Company, CPA, LLP

West Des Moines, Iowa
March 20, 2009

WEST DES MOINES WATER WORKS

SCHEDULE OF FINDINGS

Year ended December 31, 2008

PART I: SUMMARY OF THE INDEPENDENT AUDITOR'S RESULTS:

- (1) An unqualified opinion was issued on the financial statements.
- (2) No reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.
- (3) The audit did not disclose any non-compliance which is material to the financial statements.

PART II: OTHER FINDINGS RELATED TO STATUTORY REPORTING:

- (1) Certified Budget - Disbursements during the year ended December 31, 2008, did not exceed the amount budgeted.
- (2) Questionable Expenditures - We noted no expenditures that we believe did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- (3) Travel Expenses - No disbursements of West Des Moines Water Works' money for travel expenses of spouses of West Des Moines Water Works' officials or employees were noted.
- (4) Business Transactions - No business transactions between the West Des Moines Water Works and West Des Moines Water Works' officials or employees were noted.
- (5) Bond Coverage - Surety Bond coverage of West Des Moines Water Works' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure coverage is adequate for current operations.
- (6) Board of Trustees Minutes - No transactions were found that we believe should have been approved in the trustee minutes but were not.
- (7) Revenue Bonds - The Water Works has established the sinking and reserve accounts as required by the water revenue bond resolutions.
- (8) Deposits and Investments - The West Des Moines Water Works has adopted a written investment policy as required by Chapter 128.10B of the Code of Iowa.